

UNITED STATES SENATOR • IOWA

CHUCK GRASSLEY

<http://grassley.senate.gov>
press@grassley.senate.gov

Contact: Jill Kozeny, 202/224-1308
Jill Gerber, 202/224-6522

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Grassley, Baucus Investigate Adequacy of Key Anti-Money Laundering Law

WASHINGTON – Sen. Chuck Grassley, ranking member of the Committee on Finance, and Sen. Max Baucus, chairman, today sent a letter to the Internal Revenue Service to collect information that will help them determine whether a key anti-money laundering law is adequate and if so, is being enforced adequately. The inquiry came in response to revelations that the perpetrators of the Sept. 11 attacks relied heavily upon cash transactions.

“In the late 1920s, Al Capone’s lavish spending and frequent cash transactions attracted IRS scrutiny,” Grassley said. “The rest is history. Capone spent several years of his prison sentence for tax evasion on Alcatraz Island. Cash transactions have long been the criminals’ financial tool of choice. Terrorists are the latest to take advantage of this. To preserve national security, anti-money laundering laws have to work well.”

The text of the Grassley-Baucus letter follows.

September 27, 2001

The Honorable Charles E. Rossotti
Commissioner
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, D.C. 20224

Dear Commissioner Rossotti:

We are writing this letter to inform you about a matter of mutual concern. The grave acts of terrorism of September 11 and continued threats of terrorism committed by foreign terrorists pose an extraordinary threat to our national security. Preliminary reports regarding the terrorists’ attacks indicate the perpetrators and their accomplices were supported by a pervasive and sophisticated financial network that relied heavily on the use of cash. It has been reported that some of the four airplanes’ hijackers paid cash for their flight school instruction, airline tickets and other expenditures, and that a number of accomplices detained by federal authorities were reportedly carrying bags that contained large amounts of cash or cashier’s checks.

The terrorists’ financial network and the heavy reliance on cash transactions to avoid detection call into question the effectiveness of our anti-money laundering laws. In 1984, the

Congress enacted Section 6050I of the Internal Revenue Code to require businesses to file Form 8300 reports with the Internal Revenue Service when customers made purchases with more than \$10,000 in cash. While the reports required by the Bank Secrecy Act can be used to trace movements of cash into and out of financial institutions or across national borders, only the Form 8300 provides information that can be used to trace cash movements into retail sectors of the economy and link abnormal uses of cash to purchases of goods or services with possible illicit sources of that cash. When first enacted, Congress believed the Form 8300 would allow the IRS to identify tax evaders participating in the so-called “underground economy.” Today, this provision is also used to combat drug trafficking, money laundering and other illicit activities – and now the war against terrorism. For the Form 8300 to be a valuable enforcement tool, it requires the business community to comply with the reporting requirements and law enforcement agencies to make effective use of the information provided.

Accordingly, we are interested in learning how the IRS and other federal law enforcement agencies are using Section 6050I, and whether the provision has been helpful in tracking down suspected terrorists connected with the September 11 attacks. We would like to ensure that all federal law enforcement agencies have every possible means of ensuring maximum use of this mechanism to target criminal activity. Please provide us with answers to the following questions:

(1) In general, how many filings of Form 8300 does the IRS receive each year? How many Forms 8300 are designated as “suspicious transaction” reports? Where and how are the Forms 8300 processed? How many inquiries are made annually to the Form 8300 database? How are the “suspicious transaction” reports handled? How long does it take to process a Form 8300? How long does it take the IRS to process a “suspicious transaction” report? Are all “suspicious transaction” reports investigated? Is the Form 8300 database current? To what extent is information from the Form 8300 shared with other law enforcement agencies? Are there any limitations on the dissemination and use of the Form 8300 information?

(2) What is the level of compliance by the business community? Are the Forms 8300 filed by the business community timely, complete, and accurate? What is the percentage of Forms 8300 that are of no use because of missing information? What efforts has the IRS taken to ensure compliance by the business community? What steps has the IRS taken to inform businesses of the Form 8300 requirement? Please provide copies of any reports on business compliance. How many penalties does the IRS assert annually for failing to file a Form 8300? How many criminal actions are taken each year for willful failures to comply with the requirements of Section 6050I?

(3) Has the Form 8300 database been analyzed to determine whether any of the businesses frequented by the September 11 hijackers or suspected accomplices filed a Form 8300? If so, please describe the identity of the individual(s) from whom the cash was received; the person(s) on whose behalf the transaction was conducted; a description of the transaction(s) and the method of payment; and the name(s) of the business that received the cash. What actions has the IRS taken with regard to these reports?

(4) Is the IRS aware of any cash transactions related to the September 11 attacks that should have been reported to the IRS, but were not? If so, please provide the name and address of the business and a description of the transaction(s) and the method of payment.

(5) Is there anything Congress can do to make the Form 8300 requirement a more useful investigative and prosecutorial tool for the IRS and all other federal law enforcement agencies? What steps is the IRS taking to make the Form 8300 program more effective?

Given the urgency of this matter, we would like a response to this inquiry no later than Thursday, October 6, 2001. Since answers to some of these questions might contain confidential taxpayer information or sensitive investigative materials, we are requesting that you provide us with a separate redacted version of your response that can be disclosed to the public.

If you have any questions, please call Pat Heck at 202/224-4515 or Dean Zerbe at 202/224-5315. Thank you for your prompt attention to this request.

Sincerely,

Charles E. Grassley
Ranking Member

Max Baucus
Chairman

cc: The Honorable Paul O'Neill
The Honorable Tom Ridge